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DIRECTORATE OF  
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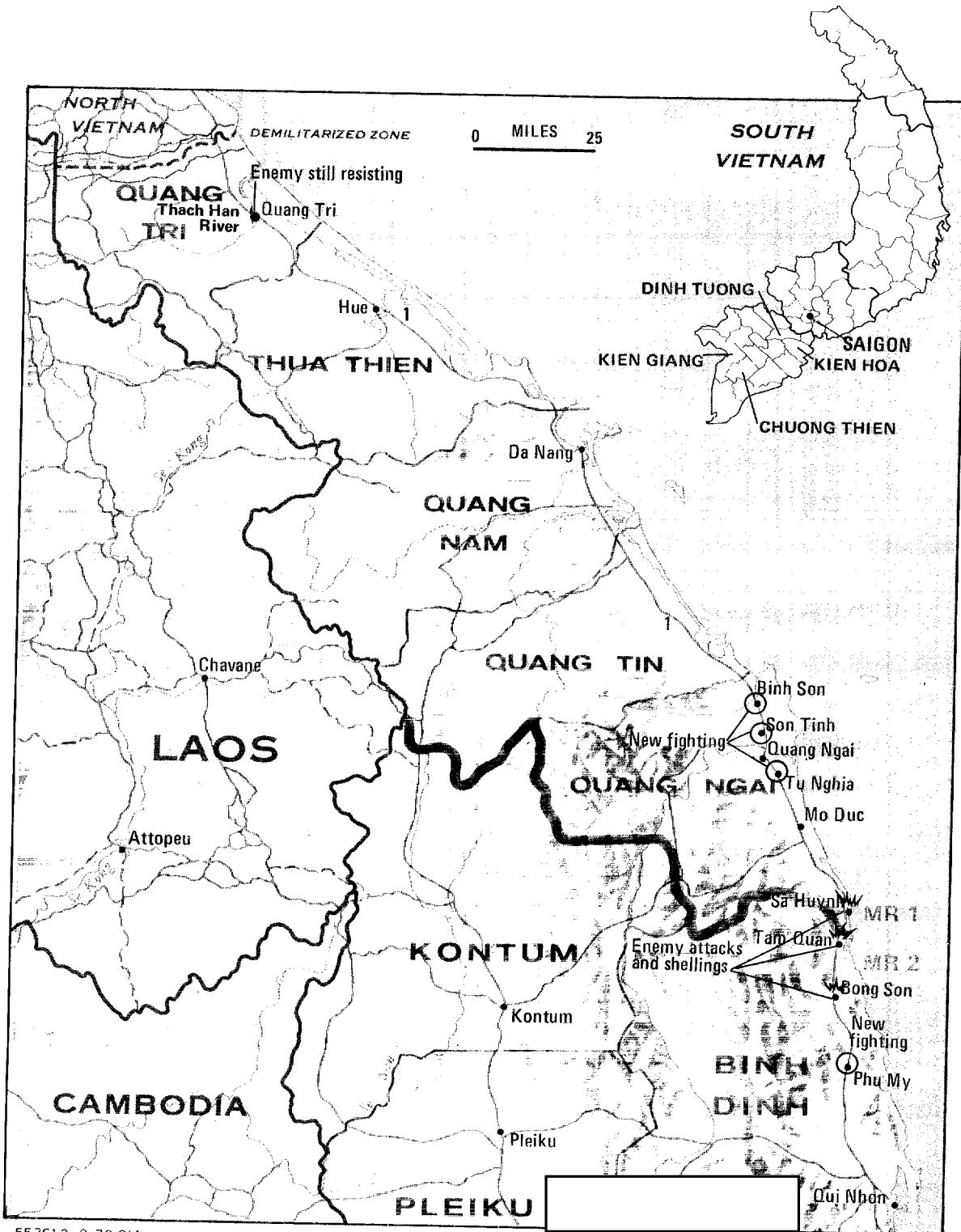
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**C** VIETNAM: The fighting in Quang Ngai Province has spread to all five coastal districts. South Vietnamese territorials clashed with enemy forces near Binh Son district capital on 18 September, and fresh Communist attacks were reported in Son Tinh and Tu Nghia districts. South Vietnamese regulars have linked up with the territorial forces defending Mo Duc, but the town apparently remains isolated. Government forces in Sa Huynh are also cut off and have been under sporadic attack.

There is additional evidence that the Quang Ngai attacks are a part of a coordinated Communist campaign in the lowlands. Heavy enemy mortar barrages have hit government positions in Tam Quan and Bong Son in neighboring Binh Dinh Province, and substantial ground action has been reported near Bong Son and Phu My district capital, farther south.

In the Quang Tri City area, fighting and Communist shellings have eased somewhat, but South Vietnamese Marines continue to meet sharp resistance from enemy pockets within the citadel. South Vietnamese paratroopers skirmished sharply with enemy forces some miles south, where the Communists may be trying to mask the southward movement of men and supplies.

Fighting in the southern provinces remains centered in the delta provinces of Kien Giang, Chuong Thien, and Kien Hoa. The Communists directed mortar fire into the provincial capital of Kien Hoa on 18 September and are continuing to harass government outposts in that province as well as in neighboring Dinh Tuong Province. [redacted]

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CAMBODIA: Lon Nol may be seeking to derive some political as well as military benefits from his appointment of a new army chief of staff.

In what could be the first step toward a long overdue reorganization of the high command, the President has tapped former Military Region II commander Major General Sosthene Fernandez to head the Cambodian Army. The President is aware that Fernandez is a close associate of Sirik Matak--one of Lon Nol's chief critics. Lon Nol probably is also aware that Matak's refusal to date to rejoin the government is based in part on his insistence that the President must reduce his excessive interference in military matters. Given these factors, the appointment may have been intended in part as a conciliatory gesture designed to induce Matak to accept Lon Nol's repeated offers of the vice-presidency.

The energetic Fernandez, who is a trained military professional with some sorely needed talent for organization, has lost little time in exercising his new authority. He has already indicated that he will take the responsibility for high-level direction of combat operations, and he has emphasized that all field commanders wanting to communicate with Lon Nol must go through him.

Whether or not Lon Nol is indeed ready to surrender much of his ineffective personal control over military matters, Fernandez' appointment has already had some tonic effect on the military. Members of the General Staff are enthusiastic about the move, which may also sit well with many lower ranking officers who recently have been grumbling about the government's overall poor performance. The appointment, moreover, should simultaneously serve to restore public confidence in the army, if only temporarily. [redacted]

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UGANDA: President Amin is likely to view his army's success against the rebels as a further justification of his leadership.

His anger will probably be directed first against foreigners in Uganda. His allegation of British involvement in the fighting, in particular, has called into question the British presence. Amin's advisers have already told him that all British technical advisers should be forced to leave, and the government radio's charge that British spies are living in Uganda paves the way for action against individual British citizens. An intensification of his xenophobic policies may lead Amin to focus on the whole Western presence, including American.

Meanwhile, six of the thirteen Americans arrested in recent days, including three Peace Corps volunteers, remain in custody. The US ambassador, who has had difficulty arranging consular access to those held, has now talked with five of the Americans and reports that they are being treated well. The government has agreed to release into the custody of the embassy an American newsmen arrested Sunday. [redacted]

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YUGOSLAVIA: Belgrade probably will increase pressure on Western governments to halt the terrorist activities of Croatian emigres.

In demarches to countries with large colonies of Croatian emigres earlier this month, Belgrade demanded that these governments stop anti-Yugoslav activity. That protest followed more than a year of heightened emigre terrorist attacks on Yugoslav installations at home and abroad.

Two Yugoslav tourist agency offices in Australia were bombed this week. In Spain, anonymous callers have telephoned threats of new violence unless authorities release the Croatian emigres held in the recent hijacking of an airliner from Sweden. The three hijackers and the six ransomed convicts probably will be returned to Sweden.

After the hijacking, Yugoslav party executive bureau secretary Stane Dolanc in a public address attacked those countries which regard "themselves as models of democracy" but watch terrorism against Yugoslavia "with folded arms." He demanded that they do something to prevent emigre violence and warned that their failure to do so would result in a sharp deterioration of relations. The Yugoslav press, adding vitriolic comment of its own, gave heavy play to Dolanc's speech. The countries Dolanc evidently had in mind include Sweden, Austria, Australia, West Germany, Canada, and the US. [redacted]

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FINLAND: Helsinki is delaying final action on its recognition of East Germany and its free trade agreement with the European Communities.

The Finns and East Germans initialed a treaty for full diplomatic relations on 6 September. Bonn, though restrained in its efforts to dissuade the Finns, thus far has ignored Finnish offers to engage in similar negotiations. The Finnish ambassador in Washington speculated on 18 September that Finland will not formally sign the treaty recognizing East Germany until Bonn also is ready to establish relations with Helsinki. The ambassador used as a rationale Finland's desire not to have the two German states represented at a Conference on European Security (CSCE) by diplomats of unequal rank. In fact, Helsinki probably fears that its move toward recognizing Pankow may already have jeopardized Finland's chances for hosting the full-dress CSCE.

President Kekkonen's decision to stretch out the signing and ratification of the EC free trade agreement reflects in part Finnish uncertainty over the outcome of EC referenda in Norway and Denmark. Last week the government announced the formation of an all-party committee to investigate the effects of the treaty on the Finnish economy. This is a stalling tactic, because the subject had been studied thoroughly during the negotiations with Brussels. The current timetable places signing and ratification after the Norwegian and Danish referenda and after municipal Finnish elections on 2 October. [redacted]

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NORWAY: Facing intensifying inflationary pressures, the government has reimposed a price freeze and indicated that it is considering a reduction of the value-added tax on food products. The consumer price index has risen almost eight percent since August 1971. Recent price increases reflect in part large wage hikes granted this spring and the catch-up effect of prices after the lifting of an earlier price freeze that was in effect from December 1970 through November 1971. It is unlikely, however, that the latest freeze will be more effective than the previous one, under which the cost of living rose 6.2 percent. The failure to contain the wage-price spiral, coupled with the possible defeat of the government backed EC referendum next week, threatens the future of the minority government of Prime Minister Bratteli.

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PAPUA NEW GUINEA: Inter-tribal feuding has flared up in the highlands of central Papua New Guinea, requiring the Australian administration to bring in additional police forces from neighboring districts. Few lives have been lost so far but the situation is tense, and further fighting is likely. Approximately half of the 3,700-man territorial police force is now in the highlands, and at least some of these mobile forces will probably remain for some time. The highlands peoples are far less advanced than those on the coast; mountain tribal loyalties and hostilities outweigh emerging nationalism. Despite the disunity and uneven development indicated by the current tribal disorder in Papua New Guinea, the Australian Government plans to grant self government to the territory by late next year.

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BOLIVIA: The Banzer government is likely to protest planned sales from US strategic metal stockpiles. La Paz apparently is alarmed that US offerings of antimony, scheduled over the next 18 months, will depress the world price which has just begun to rise after a sharp drop last year. An erroneous rumor regarding imminent sales of tin from the US stockpile provoked a diplomatic protest from the Banzer government last week. Bolivia depends on metal sales for more than three fourths of its export earnings, and the Banzer government's current fiscal crisis would be further exacerbated by any drop in world metal prices. [redacted]

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